

Sustainable Investments

Principal Adverse Sustainability Impacts
Statement - Article 4 of the SFDR Regulation
(EU 2019/2088)



cardano

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1. Introduction to Principal Adverse Sustainability Impacts Statement

Cardano Risk Management B.V. ("Cardano") is an investment firm and considered a financial market participant under the Sustainable Finance Disclosure Regulation (SFDR). The financial instruments we invest in on behalf of our clients are derivatives, government, government-related bonds, covered bonds, Social Housing Loans ("WSW-leningen") and money market funds. We do not undertake direct investments in equities or corporate credit.

In addition to sustainability risks, Cardano also identifies and prioritises the principal adverse impacts of its investment decisions on sustainability factors. The Principal Adverse Impact Statement as required by the SFDR outlines how Cardano considers the principal adverse sustainability impacts of its investment decisions for the investments Cardano makes for and on behalf of our clients.

These sustainability factors are defined by the SFDR as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. In addition to the qualitative summary below about how Cardano takes into account these factors into investment decision making, in 2023 Cardano will publish data corresponding with the SFDR mandatory indicators and additional indicators.

2. Description of policies to assess principal adverse sustainability impacts

The Cardano group has implemented a [Sustainability Policy](#) to stimulate countries, institutions and companies to prosper, while operating within the planetary boundaries and respect the social foundations of society. We refer to this as the 'safe and just operating zone', where global challenges such as climate change, resource scarcity, social injustice and inequality are properly managed. The planetary boundaries and social foundations indicate the maximum of natural resources humanity can use without exhausting the planet and minimum universal social and governance norms affecting health, wealth and wellbeing.

The [Sustainability Policy](#) provides a holistic view on the roles that investors play to guide the transition to a sustainable society. As part of our [Sustainability Policy](#), we assess the adverse sustainability impacts caused by every country, institution and entity within our investable universe. To do this, we have developed a Sustainable Investment Framework, which includes a set of criteria to identify and prioritise adverse impacts that countries, institutions and entities have on sustainability factors, including climate, biodiversity, water quality and availability, labour rights, human rights, anti-corruption and anti-bribery matters. In the following sections our approach for assessing principal adverse sustainability impacts can be found.

3. Description of actions to address principal adverse sustainability impacts

The basis of the Cardano [Sustainability Policy](#) is that companies, institutions and countries have to comply with our [Fundamental Investment Principles](#), which define the bottom-line of our investments. These principles relate to how the investment decisions comply with a set of socio-ethical factors related to impacts on humans, society and the environment. If companies, institutions or countries are found to have structurally violated one or more of these factors by having a severe adverse impact, then Cardano will not invest in these entities or countries.

Secondly, the adaptive capacity of companies, countries and institutions to prepare themselves for the transition towards a more sustainable society is assessed. This is done for seven Material Sustainability Drivers, that show

how entities, institutions and companies respond to social and market changes caused by the sustainability transition. These drivers are used to assess the sustainability risks and opportunities and the potential adverse impacts of entities, countries and institutions.

Screening

For entities, countries and institutions in the investable universe Cardano assesses to what extent they comply with the Cardano Fundamental Investment Principles and their adaptive capacity according to the Material Sustainability Drivers. Cardano believes that countries and institutions will be better prepared for the future if they take sustainability related risks into account and minimize their adverse impact. This is measured through the assessment procedure.

In addition, Cardano believes that countries, institutions and entities will be better prepared for the future if they also contribute actively to the Sustainable Development Goals (SDGs) of the United Nations (UN). We specifically screen for SDGs and planetary boundaries. Our active approach enables us to select investments that score highly on these aspects.

4. Engagement

Related to Investments

Cardano does not invest directly in equity or debt of companies, other than debt of government related entities, therefore engagement with companies to improve sustainability performance and/or corporate behaviour does not apply for Cardano. For the same reason shareholding voting is not applicable.

Cardano invests in government, government-related, covered bonds, WSW loans, and money-market funds for and on behalf of our clients. Furthermore, Cardano trades and manages derivatives for our clients and as such we interact with financial counterparties. To understand a counterparty's ESG risk exposure, our dealer committee has developed a framework that screens counterparties for material ESG issues using data provided by different ESG rating agencies. The dealer committee monitors the creditworthiness of counterparties and determines an internal rating.

A view on counterparties' ESG risk exposure forms an important part of that decision-making process. Counterparties that score below a threshold on various tests under the framework are subject to further investigation. All other counterparties are deemed to pass the ESG assessment.

We have supplemented third-party ESG data with our own questionnaire. The detailed disclosures are used as part of our review process. In the rating methodology that Cardano applies for monitoring counterparties, social and governance factors are taken into account. In case of a low score on these factors, Cardano will actively raise its' concerns and engage with company management of these counterparties to aim for improvements.

Where a counterparty is subject to further investigation, the framework applies a more granular screening process, where the ESG issues under consideration are closely linked to our sustainability beliefs. Counterparties that fail this screening process are then subject to an in-depth ESG review. The review primarily consists of a detailed review of MSCI ESG reports, together with broader research on the counterparty.

Where a counterparty that is subject to active engagement is not demonstrating signs of engagement or a willingness to address our ESG concerns, after a reasonable period of time the counterparty ESG assessment will be deemed to be "poor".

A poor rating will typically result in a downgrade to our rating, and therefore may be excluded from our list of counterparties with which we will transact new business, or potentially, if credit concerns are raised, unwind existing positions

Wider Market Engagement

The Cardano Group plays an active role in promoting good governance and stewardship of internal and external activities that may impact our clients:

- We are an active participant in ESG forums and conferences, listening and contributing to industry initiatives with the intent of driving better practice and policy in the wider financial market;
- We play an active role in responding to consultations that could have implications on assets and liabilities of our clients. We look to ensure that changes made to markets and regulation positively impact our pension fund clients future financial stability and ensure the continued well-functioning of markets.

Voting

Cardano does not invest directly in equity, therefore shareholding voting is not applicable.

ESG integration

We integrate ESG criteria into the investment process, which is demonstrated in a relative ESG score. The higher the score, the lower the risk. The score also reflects on how a country is performing. Naturally, our focus themes of Climate (CO₂ emissions), Water and Land are also sufficiently considered.

5. Adherence to international standards

Cardano's Fundamental Investment Principles¹ for Companies are minimum standards that are defined by ethical, social and environmental principles fundamental for good citizenship and good corporate governance. They are based on a broad range of international treaties, conventions and best practice guidelines, including the UN Global Compact, the UN Guiding Principles on Business & Human Rights and the OECD Guidelines for Multinational Enterprises.

These international guidelines are considered universal. Cardano considers violations of the above-mentioned international mechanism to be a violation of the Fundamental Investment Principles and therefore not eligible for investment.

Cardano is a signatory to the Principles for Responsible Investment (PRI) and as a signatory we abide by all of the requirements and expectations.

We adopt the guidelines set out by the Taskforce on Climate-related Financial Disclosure (TCFD) in developing climate disclosures in line with the recommendations. We have set a target for our portfolios to achieve net-zero greenhouse gas emissions across all assets under management by 2050 to be in line with the Intergovernmental Panel on Climate Change (IPCC) 1.5°C pathway. For this long-term target, Cardano's intermediate target is to reduce the greenhouse gas emissions intensity of our investments with 50% by 2030 and with 75% by 2040 compared to 2019.

¹ Please see our [Sustainability Policy](#)



Cardano | Weena 690, 21e etage, Postbus 19293, 3001 BG Rotterdam The Netherlands
[T: +31 \(0\)10 2061300](tel:+31202061300) | [E: info@cardano.com](mailto:info@cardano.com) | [W: cardano.com](https://cardano.com)

Cardano Risk Management B.V. is onderdeel van de Cardano Group en statutair gevestigd te Amsterdam -
KvK-nummer: 24308915.
